Strategic Human Resource Management and Performance: The Contingency Approach Case of Tunisia

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Abstract

Organizations today are in search of resources that are generating a sustainable competitive advantage (SCA) and, in fact, human resources (HR) seem to offer this SCA, because they are rare, imperfectly imitable and difficult to substitute. HR makes a difference from one firm to another through creativity and innovation. However, HR cannot be a source of SCA if the staff in question is neither motivated nor competent. So it seems that the development of a good HRM is required. The HRM will play a key role in strengthening the motivation and the renewing and upgrading of skills. Thus, firms that want to create a sustainable competitive advantage are called upon to adopt a HRM that can mobilize trained personnel and bring them to adhere to organizational goals. In this research, we used the contingency approach to explain the link between strategic human resources management (SHRM) practices and the performance. By adopting a purely quantitative study, the results of our research show that the interaction effects between certain SHRM practices and the level of innovation are able to explain the performance variations of the Tunisian industrial firms.

Keywords: Strategic Human Resource Management, performance, business strategy, contingency approach.

1. Introduction

The conjunctural forces in which firms are exposed enable them to get restructured and to adapt constantly to change. Organizations will also take adjustment measures that will be able to provide them with greater flexibility and adaptability, which will help ensure their survival and sustainability.

Moreover, many theorists and practitioners have attempted to develop HRM models that can improve performance. Shall we adopt approaches or ready recipes applicable anywhere and at anytime or is it necessary to adopt contextual approach?

As part of this work we used the contextual approach to show the SHRM’s contribution in improving the firm’s performance. Thus, we chose the firm’s strategy as moderating variables in the relationship between strategic HRM practices and firm performance.

The contingency approach refutes the idea of universality and states that it is difficult or unacceptable to identify principles with a universal way and to suggest that these principles would be able to adapt to all contexts and all situations. This approach is, thus, based on a logic step to explain any phenomenon: it consists of understanding each case and identifying the difference between the cases or situations. We can identify factors called contingent variables that may affect the work, performance, productivity and business performance.

On the methodological level, the contingency theory (Pugh, Hickson, Hinings & Turner, 1969) consists of seeing how the relationship between a dependent variable and an independent variable is determined by the different modalities taken by another variable called contingent.
Applied to the field of HRM, the contingency approach assumes that HRM practices can positively affect performance when they are aligned with a third variable, such as business strategy (Dyer, 1984; Lengnick Hall and Lengnick-Hall, 1988, Miles and Snow, 1984; Youndt, Snell, Dean and Lepak, 1996).

The results of our research have highlighted the interaction effects between certain strategic HRM practices and business strategy. This is an important support for the approach of contingency.

2. Theory and hypotheses

According to the contingency approach the practice of human resource management can have a positive impact on business performance, only if they are adapted to the management of the firm and aligned with the overall strategy of the latter. In other words, the contingency approach emphasizes the contextualization of human resource management (Allani & al, 2003).

The contingency approach to human resources assumes that the policies and practices of human resource management have no real value to the firm when they are properly aligned with the strategic direction of the organization (Jackson Schuler and Rivero, 1989; McMahan, Virick and Wright, 1999; Schuler, 1987; Schuler, 1992; Schuler, Galante and Jackson, 1987; Schuler and Jackson,1987).

The basic assumption of the contingency perspective is:

- That the alignment (external fit) of a specific strategy and practices of human resource management allows the organization to improve its performance
- That the organization which has the best fit gets the best results.

Basic premise: The relationship between the practices of strategic human resource management and organizational and financial business performance is moderated by the business strategy the organization adopts. (figure 1).

2.1. Theoretical Foundations

On the theoretical side, there have been several works that justified the idea of the link between the HRM practices and strategic direction (Wright and McMahan, 1992; Youndt, Snell and Wright, 1996). Several authors (Delery and Doty, 1996; McMahan, Virick and Wright, 1999; Schuler and Jackson, 1987) consider that the behavioral theory of human resources is the main foundation of the approach of contingency. The latter assumes that an organization can effectively achieve its objectives insofar as it can count on the presence of actors whose behavior can be aligned to strategic business requirements (Katz and Khan, 1978; Schneider and Bowen 1985). Thus, the management of human resources is an excellent alternative (instrumental variable) to encourage and reinforce the desired behavior by strategic business needs (Schuler and Jackson, 1987; Delery and Doty, 1996).

Behavioral theory states that every business strategy requires specific behavior and the role of human resource management is precisely to encourage appropriate behavior for each strategy.

2.2. Empirical work on the contingency approach

The contingency perspective of SHRM examines directly the link between the strategy adopted by the firm and the HRM practices (Youndt & al, 1996; Delery and Doty, 1996; Bolwijn and Kumpe, 1996; Arcand & al, 2004). This is to show that the firm’s performance is enhanced by the adoption of HRM practices which are consistent with the type of strategies adopted by the firm. These authors consider that the business strategy can be a contingent variable and HRM practices have to be different according to the firm’s strategic direction.

In what follows we will present the main results found by these authors. Youndt & al (1996) sought to determine of the HRM system specifics that allow this system to have a positive effect on performance, while being aligned with the business strategy. These authors conducted a survey within 512 firms in the metallurgical industry and found that there are two HRM systems each corresponding to a particular strategy. Thus, the first identified system is called the administrative system. It is well suited to the cost reductions strategy (Youndt et al, 1996, p. 860).

The administrative system is characterized by:

- The use of low-skilled labor or specialized that does not require the establishment of a complex system of recruitment.
Tasks are often routine, they do not require the development of sophisticated training plans, Performance evaluation is focused on results, The remuneration is calculated at the fair just to reduce costs, but individual bonuses may be awarded on the basis of production and productivity.

The second system is called the human capital system. This system corresponds better to strategy flexibility and quality strategy (Youndt et al, 1996, p. 860).

The system of human capital is characterized by:

- The changing role of employees: evolving from a binding, simple work to a resolute work requiring certain versatility and skills. The employee is required to ensure new responsibilities such as problem solving, continuous improvement of quality, maintenance or schedule).
- HRM practices focus on the acquisition of HR opting for a rigorous and subjective selection of candidates, during recruitment a job. It is also to develop customized training programs.
- A human resource management that promotes interpersonal communication and sharing of information,
- The remuneration is based on the collective performance.

Delery and Doty (1996) sought to empirically test the contingency of the business strategy and its impact on HRM practices. They resumed the typology of Miles and Snow (1978) to identify the appropriate system of each HRM strategy and that would be able to ensure organizational performance.

These authors conducted their study within 192 US bank branches. They distinguished two systems of HRM, as the firm adopts a strategy of prospector or defendant.

A defendant strategy corresponds to a HRM system characterized by:

- Opportunities for internal careers,
- formalized systems for internal training,
- An assessment based on individual skills,
- Job security.

A prospector strategy corresponds to a HRM with the following characteristics:

- Few internal career opportunities (external recruitment)
- No internal training
- Result based evaluation
- Low job security.

The market system is best suited for firms that adopt "prospector" strategies.

Another study conducted by Bayad, Arcand and Liouville (2002) within 1983 French firms demonstrates the relevance of the contingency approach. According to this study, there would be a positive relationship between certain HRM activities (selection, compensation, performance evaluation, training, participation) and organizational effectiveness, insofar as these HRM practices are aligned with the business strategy.

Finally, in a conceptual paper Bolwijn and Kumpe (1996) show that four competitiveness factors have succeeded in time: performance, quality, flexibility and innovation.

Each of these factors leads to the adoption of different business strategies and to a variety of HRM practices. It is therefore possible to identify four systems of HRM.

During the 60s, firms had as major concern the increase in yield. To do so, these firms have adopted a costs reduction strategy associated with mass and standardized production. The work is parceled and tasks are monotonous and basic. The HRM or rather the personnel administration was limited to the control and supervision and optimal allocation of employees to the production needs. Employees were simple executors because of the divide between reflection and execution. They have no autonomy and are constrained by the strict requirement.

To the 70s, the quest for quality starts to become a source of competitive advantage. The HRM is affected and seems to incorporate new directions and interests. Indeed, negative sanctions give way to positive incentives. Employees, rather than face sanctions can be encouraged and motivated to adhere to organizational goals and be more productive. The HRM focuses on strengthening the spirit of cooperation, of interpersonal communication and the involvement of the employee in his work.
The HRM helps employees to get involved in their work and consider the search for quality and the customer satisfaction as their primary goals. In addition, the HRM promotes job rotation, job enrichment and versatility of certain functions.

The 80s were characterized by the search for flexibility at all levels of the firm. To do this, the HRM improves the employee’s autonomy and creativity. Employees are more empowered and involved in solving problems. The work is valued and the autonomous teams focus more than ever on cooperation, mutual assistance and exchange. On the occasion of a recruitment, the firm chose the candidates who are versatile and have a good adaptation capacity.

Finally, and during the 90s, the interest focuses on innovation. The individual and collective capacities of imagination and creativity become the key words. The HRM practices focus on stimulating collective work and to enhance the common reflexion. Even evaluation criteria change to take on account the evaluation of the whole team.

Thereby, the HRM consider HR as a source of sustainable competitive advantage since HR are rare, difficult to imitate and non-substitutable.

Thus, the HRM emphasizes on flexibility and continuous training and considers the individual as the bearer of special business skills.

The HR manager should adopt a leadership participative style; he is now considered as a facilitator, a coordinator who can help employees to thrive. His role consists of reconciling organizational and individual interests.

3. **Model and research hypothesis**

3.1. **Model**

In light of our previous theoretical analysis, we were able to build a conceptual model that includes an interrelation between strategic human resource practices, business performance and business strategy (Figure 2).

3.2. **Hypothesis**

The relationship between strategic management practices of human resources and business performance is contingent on the type of business strategy adopted by the firm.

3.3. **Sample**

The research is based on a judgment sample into 114 selected industrial firms. The choice of this sample is based on criteria which are relevant with our research objectives.

The construction of our sample is a process of selection. A set of criteria was used to select the sample firms. The criteria that were chosen are:

- The firm is certified ISO 9001
- The age of the firm is more than three years
- The firm must not be totally exporting.

3.4. **Measures of variables**

3.4.1. **The independent variables**

The independent variables of this research are the SHRM’s practices of selected in this work namely human resources, selection, training, incentive compensation, the sharing of information, participation in decision-making and evaluation performance.

3.4.1.1. **The selection**

This practice was measured using seven items ($\alpha = 0.92$) and adapted from the work of Snell and Dean (1992) and Arcand, G (2007).

3.4.1.2. **Training**

The scale used to determine the formation contains seven items ($\alpha = 0.74$) inspired from work of Snell and Dean (1992) and Arcand (2007).

3.4.1.3. **Participation in decision-making**

This practice was measured using a scale work inspired by Arthur (1992), Lawler (1992) and Fabi et al., (2007). ($\alpha = 0.84$).
3.4.1.4. The Incentive Compensation
The scale used to measure this variable is inspired by instruments developed by Gomez-Mejia (1992), Lawler et al., (1992) and includes a set of seven items (α = 0.74). For each item the respondent gave his perception on a Likert response scale of five categories.

3.4.1.5. The sharing of information
To measure the sharing of strategic information, we opted for a scale used by Simard et al., (2005). This scale consists of six items (α = 0.88).

3.4.1.6. The performance evaluation
The scale used to determine the performance evaluation contains eight items (α = 0.89) inspired from work of Snell and Dean (1992) and Delery and Doty (1996).

3.4.2. The dependent variables (to explain)
We chose in this research a multidimensional approach of subjective measures of performance, the latter having been used and recommended as a substitute in case of non availability of quantitative data (Venkatraman and Ramanujan, 1986).

Subjective measures have been widely used in research in human resource management. In fact, most studies have shown a strong convergent validity between subjective and objective measures such as measures in financial reports (Venkatraman and Ramanujam, 1986).

On the performance criteria chosen in our research, we have introduced at the level of performance measurement, twelve items used in previous research. Huselid (1995) and Arcand (2007) have adopted a similar approach to measure performance.

The first five items refer to the human resources performance (α = 0.8). The following four items relate to organizational performance (α = 0.87) and the last three are related to financial performance (α = 0.84). Performance HR appreciates the results of social action and organizational performance related to the production activity of the firm (Igalens and Gond, 2003). Performance measure used is subjective and perceptual, as the responsible for human resources will give their opinions on the performance of their business.

3.4.3. Business strategy (variable contingency)
To measure the firm’s strategy, we decide to use the scale Segev (1989). This scale allows us to determine the surveyed firm’s strategic positioning and especially to distinguish between moderately innovative firms, highly innovative firms, and those who are slightly innovative.

The choice of Miles and Snow’s (1978) model in our analysis is based firstly on the detail’s level of the HRM practices for each strategy developed with respect to this typology and secondly on the fact that this typology is illustrated by a large number of empirical studies which led to its validation in different contexts. Simon (1987) justifies the choice of Miles and Snow’s typology by its validation in different sectors and the fact that it can be regarded as a synthesis of all other proposals such as typology of Mintzberg (1973) typology of Porter (1980) typology of Gerstein and Reisman (1983).

In addition, Miles and Snow (1978) develop a rich description of the organizations behavior covering the main elements of the strategy, structure, processes and management system.

The scale used to measure the strategy includes thirteen items. Factor analysis allowed us to identify three dimensions: innovation dimension, the competitive and the environment dimension. For the purpose of this research we used the innovation dimension with its four items (α = 0.85).

3.4.5. Control variables
To check the possible influence of certain organizational variables on business performance, we chose to monitor three variables recognized in the literature as being able to exercise such influence: variables namely, the size of the firm, the age of the firm and the union presence.

To measure the size of firms, three types of indicators or parameters are typically used: social capital, turnover and number of employees by the firm.
As part of this study, we used the third indicator for reasons of availability of information on staffing. Therefore, size is measured here by the number of employees, converted on a 5-point scale.

Regarding the age of the firm, this variable will be operationalized by the date of creation. As for the union presence, we chose a variable percentage to measure the rate of unionized employees in the firm.

3.5. Verification’s demarche of the research hypothesis

To test the hypothesis of the contingent approach, we conducted six multiple regressions on the three performance levels. The verification of this approach was carried out in three distinct stages.

The first step consisted of including only the control variables. In the second step we added strategic HRM variables and the contingency variable (the innovation level). As for the third step, it was to achieve a more comprehensive equation that takes into account the effects of interactions between SHRM practices and the contingency variable.

4. Results and discussion

Among the objectives of the research is to analyze the link between HRM and business performance including a moderating variable that is, in this case, the business strategy. The contingency perspective assumes that HRM practices, aligned to the business strategy, will have an impact on business performance.

4.1. The performance evaluation link - Strategy business Performance

The performance appraisal is a HR practice that draws its strength from its belonging to the HR system. This system should be coherent and consistent with other aspects of the organization. Thus, we can say that if the HR system follows the overall direction of the firm then the system components will also follow the same direction, and this the case of the performance evaluation which a component of the HR system. This practice is therefore following the overall direction and is consistent with the other HR system components and with the organization in general.

According to the contingency approach, the performance evaluation practice affects performance when it is aligned with the firm’s business strategy (Performance: \( \beta = 0.405, t = 2.765, \) p-value <0.01; Organizational Performance: \( \beta = 0.396, t = 2.754, \) p-value <0.01; Financial Performance: \( \beta = 0.309, t = 2.145, \) p-value <.01). The efforts made by the firm in order to establish a fair and objective assessment system help employees to act positively and to adhere to organizational goals, this will encourage innovation and improve performance.

Our results highlight the existence of a fit between the performance evaluation practice and business strategy. The business strategy requires an adequate performance evaluation mode. So, we can say that it is useless to create a modern evaluation system if the strategy is based on the autocracy and the organization obeys to traditional laws and procedures. The performance evaluation practice is contingent on business strategy.

Employee perceptions play an important role in the acceptance and therefore in the validation of the performance evaluation practice. If the employees perceive clearly the business strategy and find that performance evaluation is done according to the rules and procedures and especially to the dominant culture, they would have a rather positive attitude towards the evaluation results. It is also noted that as long as there is perception of justice and fairness concerning the social climate, the performance evaluation would be perceived positively.

For this purpose, managers should pay attention to the performance evaluation process and ensure that the measures and evaluation indicators used are as objective as possible while being transparent and clear in the eyes of employees.

4.2. The link participation in decision-making - performance business strategy

The results for the contingency approach support the first hypothesis and recognize the important role of participation in decision making (HR Performance: \( \beta = 0.355, t = 2.373, \) p-value <0.05; Organizational Performance: \( \beta = 0.298, t = 2.763, \) p-value <0.01; financial Performance: \( \beta = 0.320, t = 2.818, \) p-value <.05). Thus, the better this practice is coherent with the business strategy and the better the performance improvement is perceived.
Involving employees in decision making is a strategic HRM practice that strengthens the sense of belonging and increases the self-esteem. This practice gains all its importance when interacting with the strategy and affects financial, organizational, and human resources performances.

4.3. The link incentive compensation - Strategy Corporate Performance

Our results show that this HRM practice is connected in a meaningful and positive way to the business performance with its three levels (HR Performance: $\beta = 0.383$, $t = 2.690$, p-value <0.01; Organizational Performance: $\beta = 0.388$, $t = 2.724$, 0.05 <p-value <0.01; financial Performance: $\beta = 0.290$, $t = 2.779$, p-value <0.01) and that this relationship is, to a large extent, influenced by a moderator variable that is, in this case, the business strategy. Indeed, the incentive compensation can be perceived positively by employees only if it is consistent with the organizational values, the management style and the business strategy.

Attributing premiums and bonuses leads employees to become more involved in the work and to be more creative. It encourages innovation and leads to high levels of performance. But there exist other non-fertile contexts for promising results. This context of infertility can be explained by a mismatch either with the corporate culture, or with the financial resources of the firm. Also, it is necessary to consider the corporate culture and the available resources in the development and implementation of the incentive compensation practice.

4.4. The link between strategic information sharing - strategy-performance business

Our results suggest that the alignment of sharing strategic information on strategy has a beneficial effect on the performance with its three dimensions (HR Performance: $\beta = 0.289$, $t = 2.634$, p-value <0.01; Performance organizational: $\beta = 0.370$, $t = 2.265$, p-value <0.01; financial Performance: $\beta = 0.280$, $t = 2.474$, p-value <.01). Assemble employees around a culture of sharing, cooperation and exchange would greatly facilitate the establishment and implementation of this practice and lead to satisfactory results in terms of business performance. Thus, the firm that promotes the information sharing and exchange can increase the efficiency of its decisions and the employee motivation. These latter will make more effort to work and will be more creative and innovative. This has a positive impact on performance.

Thus, it seems unlikely that a practice of information sharing can be successful and effective in a strategic context marked by the autocracy, the divide between performers and managers and a corporate culture marked by the reluctance to share.


Our results show no significant relationship between selection, strategy and performance (Performance RH: $\beta = 0.149$, $t = 0.307$, p-value> 0.05; Organizational Performance: $\beta = 0.065$, $t = 8.131$, p-value> 0.05, financial Performance: $\beta = 0.256$, $t = 0.234$, p-value> 0.05). It follows that the alignment of the selection on the strategy can improve performance. The same results were found concerning the relationship between investment in training, strategy and business performance. Our results show, the non-significance of the moderating effect of the innovation strategy in the relationship between the HR practice and the HR performance (Performance: $\beta = 0.150$, $t = 0.819$, p-value> 0.05; organizational performance: $\beta = 0.109$, $t = 0.569$, p-value> 0.05; financial Performance: $\beta = 0.211$, $t = 1.148$, p-value> 0.05).

5. Conclusion

We formulate a research model on the basis of six HRM practices namely: selection, training, incentive compensation, participation in decision-making, information sharing and performance evaluation that are the explanatory variables, the performance which is the dependent variable and the business strategy that is the moderating variable in the relationship: SHRM practices and performance. We have used the typology of Miles and Snow (1978). This typology is very interesting from the moment that Miles and Snow were attached to develop proactive HRM systems that are consistent with the business strategy. It should be noted that most studies have opted for Porter's typology to understand the business strategy. Few studies have focused on the typology of Miles and Snow to determine the appropriate HRM systems.

The results of this research allowed us to show that the firm’s business strategy plays a moderating role in the relationship between SHRM practices and business performance as outlined in the contingency approach.
Also, the results show that the interaction effects between certain SHRM practices and the innovation level are able to explain the variations in performance of the Tunisian industrial firms.

The contingency approach is, in our opinion, an interesting approach to SHRM insofar as the different regression analyzes indicate that some relationships considered insignificant in a universalist perspective, became significant when the practice SHRM practice is aligned with the innovation level of the firm (Jery, 2013). This is the case of the performance evaluation practice. Thus, this practice when it is correctly aligned with the business strategy can positively influence all the three levels of performance.

References


**Figure 1: Human Resource Management, Manufacturing Strategy and Performance.**


**Figure 2: Research Model**

**Control variables**

- Unionization rate, size and age of the firm

**Strategic HRM practices:**

- Selection
- Training
- Participation in decision-making
- Incentive Compensation
- Sharing of information
- Performance evaluation

**Contingency variable: business strategy**

- Prospector (highly innovative)
- Analyzer (moderately innovative)
- Defender (weakly innovative).